CITY OF FOND DU LAC, WI
JOB CLASSIFICATION AND COMPENSATION STUDY

CONSULTANT'S REPORT

March 26, 2012

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EXECUTIVE SUMMARY

1. This study report covers over 180 City employees. Although represented sworn police and fire staff and transit employees are not included in the study because they are covered by unique collective bargaining statutes, they did complete job description questionnaires. Over 50 library employees are independent from the City staff for pay-setting purposes, and we will be making recommendations to the Library Board of Directors that are consistent with the recommendations included in this report.
2. The City granted a two percent increase in the pay schedules for these employees for 2012 following a long period of no general pay increase.
3. Current salary levels for managers and professionals are competitive.
4. Current hourly rate pay levels for FLSA non-exempt employees tend to be consistent with other public employees similarly classified but substantially above area market rates.
5. We have created four pay plan options for the City to consider as requested by the City Council at a Committee of the Whole workshop on March 14.
6. All four pay plan options should require an annual performance review to qualify for any pay increase.
7. We recommend the City and employees share future health insurance premium increases 50/50 until the 80/20 split is reached. This will make the City more competitive with the area labor market.
8. The City Council declined to implement a staff recommended move to a federal Fair Labor Standards Act overtime standard in 2012. We recommend the City review the impact of this decision over the next six months, both in terms of costs and operational impact, for possible modifications in 2013.
9. The City Council deferred a decision on the future of its longevity pay program to this study, and we recommend it be eliminated at the end of 2012 and replaced with a one-time retirement option plan in 2013.
10. We recommend the City review the current paid time off programs for a possible conversion to a paid-time-off (PTO) system in 2013.

It is our belief that City revenues will continue to be strained severely. City Administration projects that a continuing pattern of 2% pay increases and the rising cost of city health insurance under the current health insurance premium sharing arrangement will result in a $2.9 million operating deficit in 2013, increasing to $4.2-4.8 million deficit for 2017.

INTRODUCTION

The City of Fond du Lac retained Carlson Consulting LLC to conduct a comprehensive study of its job classification and compensation system. Our firm developed the current system eleven years ago for the City's "non-represented" employees (department managers, supervisors, professional and confidential staff),and we assisted with plan maintenance over the intervening years.

The Wisconsin Legislature substantially altered the collective bargaining laws in 2011 affecting over 120 non-sworn City employees whose contracts have expired. The City is precluded by law from negotiating pay plan structure and fringe benefits with staff, unless they are transit or represented sworn employees. The City commissioned this study to obtain new information for its compensation decision-making for both this group of previously represented employees, as well as updating the pay plan for the non-represented employees.

The scope of our work for this project has been as follows:

1. Review and analyze relevant organizational values and concerns. Determine current organizational needs in regard to a classification and compensation system.
2. Conduct project orientation sessions for managers to explain the scope of the project, our methods, and each person's role.
3. Review the City's total compensation measurement method.
4. Document position responsibilities for all represented positions using the same job documentation/analysis tools implemented for management and supervisory staff.
5. Apply the Point Factor Job Evaluation system to all positions to balance internal relationships with market factors.
6. Determine desired total compensation policy; i.e., the appropriate relationship between pay and benefits, the appropriate market(s), and the City's intended target for pay practices in relation to the market.
7. Conduct marketplace research to determine appropriate competitive compensation (base pay) relationships so the City can recruit/retain highly qualified employees successfully.
8. Comment on the quality and cost of the benefit program and recommend modifications that are warranted by the City's total compensation philosophy.
9. Design pay range options that are consistent with the City's pay policy and reflect appropriate pay practices for public sector employees at these levels.

10. Recommend allocations of each position to an appropriate pay grade based on appropriate internal equity and marketplace considerations.
11. Discuss with City leadership the issue of pay progression with appropriate consideration for both length of service and performance. Make recommendations based on the identified pay philosophy, feasibility and affordability.
12. Review supporting pay administration policies.
13. Review the current process for internal maintenance of the classification and compensation system, making recommendations as appropriate.
14. Conduct classification appeals following adoption of a new plan by Client. Appeals must be submitted within 30 days of plan adoption.
15. If requested, develop follow-up project proposals for the design and implementation of a pay-for-performance system and an employee engagement survey method.

The following is our report on findings and recommendations related to this scope of work.

I. Review and analyze relevant organizational values and concerns. Determine current organizational needs in regards to a classification and compensation system.

Public organizations conduct comprehensive compensation studies like this one perhaps once in a generation. This study is particularly unique because it comes immediately after revolutionary changes in Wisconsin laws covering municipal financial aids and employee collective bargaining. The Wisconsin Legislature reduced its financial assistance to cities to help erase a multi-billion dollar state budget deficit and sharply curtailed employee bargaining rights to give public employers the control to lower their employee payroll costs correspondingly. Additionally, it constrained the ability of municipalities to raise revenue through property taxation. All of these changes are having a substantial impact on cities across Wisconsin.

We want to be absolutely clear that our firm was NOT retained to create a pay system that lowers payroll costs. Our job is to recommend a pay plan or plans that are linked to markets that will reinforce employee performance and permit the City to recruit and retain a competent workforce.

Having made this clear, we are mindful, however, that the City of Fond du Lac's near-term financial future is challenging. The City believes, at best, that it can expect to only stay even on revenues for the foreseeable future. To fund the City's public infrastructure needs, the foundation for future growth and success, the City must find ways to lower its operating expenses.

After a period of austerity, the City committed to granting employee pay increases in 2012 and made good on its promise. Implementing the state requirement that most employees pay their statutory contribution share to the Wisconsin Retirement System and modifying the employee health insurance program helped the City offset this expense.

The question is: Where does the City go from here? The City administration projects that a continuing pattern of 2% pay increases and the rising cost of city health insurance under the current premium sharing arrangement will result in a $2.9 million operating deficit in 2013, increasing to $4.2-4.8 million deficit for 2017.

In our compensation consulting work, we adhere to a list of guiding principles in developing compensation plans for our clients. Specifically, we strive to develop plans that are:

1. Aligned with strategic objectives
2. Create internal equity
3. Are competitive
4. Consider total compensation design
5. Support performance management
6. Affordable
7. Legal
8. Can be explained
9. Efficient and can be administered consistently

A tenth standard is that any pay plan should be audited on a regular basis to make certain that the standards stated above are upheld.

With this overview, we are recommending a new compensation strategy for the City to the follow, including specific pay plans and policies that focus on total compensation, create the ability to attract, retain, and motivate a qualified workforce, and control cost.

II. Conduct project orientation sessions for all staff to explain the scope of the project, our methods, and each employee's role.

Most City department heads and supervisors are familiar with our project methods from our prior work with the City in establishing the current non-represented staff compensation plan. We met with the management team in a workshop/orientation session in the City Council Chambers at the beginning of the project to review the steps we would follow, the requirement to have an accurate Job Description Questionnaire (JDQ) from every job classification, and their responsibility for reviewing and commenting on the content.

III. Document position responsibilities for all represented positions using the same job documentation/analysis tools implemented for the management and supervisory staff.

The foundation for any effective human resource program is accurate job documentation. It is the basis for all employment actions: recruitment, job classification and compensation, performance management, position control, etc. The City first used our JDQ for the management and professional pay plan development over ten years ago.

After our project orientation session, every City employee either completed a unique Job Description Questionnaire (JDQ) or collaborated with others performing the same duties on a single JDQ. Supervisors and departments reviewed the employee responses.

Sometimes a client will ask, "If compensation is based in large part on JDQ responses, won't employees have a tendency to over emphasize their responsibility statements?"

Having evaluated literally thousands of JDQ's, we can say unequivocally that this does not happen frequently. Instead, the biggest source of error in JDQ preparation is an employee not listing an important responsibility simply because she or he is so familiar with the job that it slips her or his mind.

That's why we asked supervisors and managers review the content for accuracy and completeness. Supervisors are instructed at the outset to never tell an employee what to list on the JDQ; instead, there is a separate place for supervisory comments.

We recommend the City continue to use these JDQ's as the source of all job documentation for several reasons. First, the JDQ provides much more information in a useful format than a standard job description. Second, the JDQ asks employees and supervisors to identify how performance of essential duties can be measured, so the JDQ can be transformed into a performance management instrument. And, third, we will continue to use the JDQ as the basis for compensation management.

There are three occasions when JDQ's should be reviewed:

First, the supervisor, or department head, and the employee should review the JDQ prior to any performance review to make certain the content is current. We want performance reviews focused on the detail of the job that actually is being performed.

Second, review the JDQ whenever a position is open due to resignation, retirement, promotion, transfer, etc. And review any other affected positions, as well. Vacancies change jobs and organizational structure, frequently impacting more than one job.

Third, when an employee or a department requests a position classification review, the City should require an updated JDQ detailing what has changed in the job that warrants a review.

All in all, employees did a very good job on their Job Description Questionnaires. The City has established a solid foundation of job documentation to support all of the related activities of human resources – recruitment, classification and compensation, employee development, and performance management.

IV. Apply the Point Factor Job Evaluation system to all positions to balance internal relationships with market factors.

As with the Job Description Questionnaire, the City began using our Point Factor Job Evaluation System for the management and professional pay plan development over ten years ago. In addition to re-documenting and evaluating all of the management and professional positions, we now have documented, analyzed and evaluated the job content of every City position using the Point Factor Job Evaluation System.

Our point factor job evaluation system defines five key, job-related factors that are objectively measured by us as expert evaluators. We have used this system to evaluate thousands of jobs in both the public and private sectors, and it is a very reliable and valid tool for effective classification and base pay administration.

Each evaluation factor includes definitions of various levels that can be applied to job content to determine what is the appropriate "score" on that factor. The evaluation factors and the defined levels for each factor correspond to sections of the JDQ, so the evaluation is verifiable in the sense that one could actually observe work being performed that corresponds to the written description.

In other words, the abstraction has meaning in the real world of work. It reflects systematic measurement of the job rather than the performance of an individual doing the job. When the evaluation is finished, the point scores on each factor are totaled to obtain the overall point value for the job. Having a point score allows us to compare and contrast jobs that are frequently quite dissimilar in order to establish a job hierarchy and classification system.

In summary, the purpose of our position or job evaluation methodology is to:

1. Provide a common system with the degree of difficulty of every job in the City evaluated against the same set of criteria,
2. Determine the relative worth of every job in the City in accordance with the degree of difficulty associated with each job (i.e., to establish internal equity in the City's pay structure),
3. Assign individual positions to classifications based on similarity of duties and responsibilities as well as educational and experience requirements,
4. Provide an objective basis for establishing grade levels for each job in the City,
5. Provide the independent variable necessary to integrate with wage and salary survey data for the purpose of developing a pay structure for the City

that possesses both internal equity (job evaluation) and external equity (wage and salary survey data),

We have provided a summary of the job evaluation system and the individual factors to the administration.

The validity of the rating system is achieved through use of the proper job evaluation factors as well as the consistent application of the system, based on using evaluators with thorough training and professional experience in the concepts of internal equity and position classification. There is also a requirement of sufficiently current and complete job documentation and relevant background information.

We evaluated each job based on our understanding of position responsibilities obtained from the JDQ's. Employees were instructed during the orientation process about the importance of being accurate and thorough on the JDQ. The accuracy of the resulting job evaluation is based upon the quality and accuracy of these multiple sources of job analysis.

The Job Evaluation System was applied to the data we gathered. We determined the number of recommended pay grades by placing jobs with similar total point scores into pay grades because jobs of similar value should have the same pay opportunities. Because there are five factors of job worth measured, jobs can end up in the same grade even with great differences in point scores among some of the factors.

In an internally equitable pay plan, the more difficult or complex the job is, the higher the level of responsibility involved, and the extent to which other factors that influence compensation exist, we should expect higher pay levels. In general, then, salaries should rise with job evaluation scores. In the section below on pay plan design, we have recommended how job evaluation results and market data would come together to create pay structures for the City of Fond du Lac.

We recognize that job responsibilities change as the organization changes. The City has an established set of policies for the management of this system going forward.

V. Measure the Appropriate Markets.

The three areas where public pay management are changing radically are: (1) labor market analysis; (2) benefit cost control; and (3) pay for performance. Essentially, in these three areas, the State of Wisconsin returned public employers to circumstances quite similar to the early 1970's when State employee human resource policies limited collective bargaining to a general increase and local working conditions, and management was responsible for establishing all pay classifications and ranges based on market research or local conditions, administering merit-based pay programs, and establishing all benefit levels.

Subsequent labor laws, including interest arbitration, altered the landscape, and wage determination for unionized employees was governed by regulations and practice that virtually limited public employee comparisons to only public employees and almost always excluded local economic conditions from consideration. Today, there our major disparities between public and private sector compensation at several levels, especially when superior public employee benefits are included in the analysis.

With the exception of the most skilled workers, the pay and benefits of hourly-based workers in the public sector are substantially higher than their private sector counterparts in local area labor markets. The same is not true for managers and supervisors. At best, faced with these circumstances, local public employers have struggled to keep supervisory and management pay competitive internally. Competing with private sector managers and supervisors is generally out of the question.

The new bargaining law is changing public sector compensation management. For general employees, municipalities are precluded from bargaining wage structures and are limited to negotiating the size of a general increase within limits. In response, we have developed a market measurement strategy with the City that is based on the actual markets where the City is recruiting.

Our primary source for public employment data was a custom survey that we conducted for both the Cities of Fond du Lac and Oshkosh. The municipalities included in this sample with relevant demographic information for population, median household income, and equalized value per capita are as follows:

	Population	**Income**	**EQ/Cap**
Green Bay	104,057	$42,899	$56,802
Kenosha	99,218	$48,010	$60,585
Racine	78,860	$40,733	$48,301
Appleton	72,623	$51,723	$66,055
Oshkosh	66,083	$42,328	$57,142
Eau Claire	65,883	$38,859	$64,470
Janesville	63,575	$49,297	$61,986
La Crosse	51,320	$36,207	$60,077
Fond du Lac	43,021	$45,061	$61,440
Beloit	39,966	$36,863	$39,001
Wausau	39,106	$41,169	$67,822
Average	68.069	$42,809	$58,224
Fond du Lac	43,021	$45,061	$61,440

Note: Population and income data source is U.S. Census Quick facts report and equalized value data is from the State of Wisconsin Department of Revenue.

The market research strategy we followed in this study focuses on employee groups as follows:

- General city employees were measured against area labor markets that include both public and private sector workers.
- Managers, professional staff, and protective service employees were measured against similar public sector employers.

The primary sources for area labor market data were the U.S. Department of Labor Bureau of Labor Statistics (BLS) May 2010 Metropolitan and Nonmetropolitan Area Occupational Employment and Wage Estimates, the Towers Watson survey database for the Fox Valley area, and, to a more limited extent, the Fox Valley Chambers of Commerce Survey. Overall, we believe the BLS data is the most comprehensive, reliable dataset available for expert wage determination for positions at these levels.

We used twenty-six benchmark positions to market test the pay plan group that we have titled the "Management/Professional" group. This is the group currently referred to as "non-represented." It includes 87 job classifications covering 102 employees. The benchmark group and survey results are presented on the following page.

The first column of data after the benchmark job title is the job evaluation score (JE Pts) for that position. The second column, labeled "Step 6", is the control point from the management/professional pay plan and the maximum rate from the non-exempt, former bargaining unit, positions. The third column shows the market estimate for each benchmark.

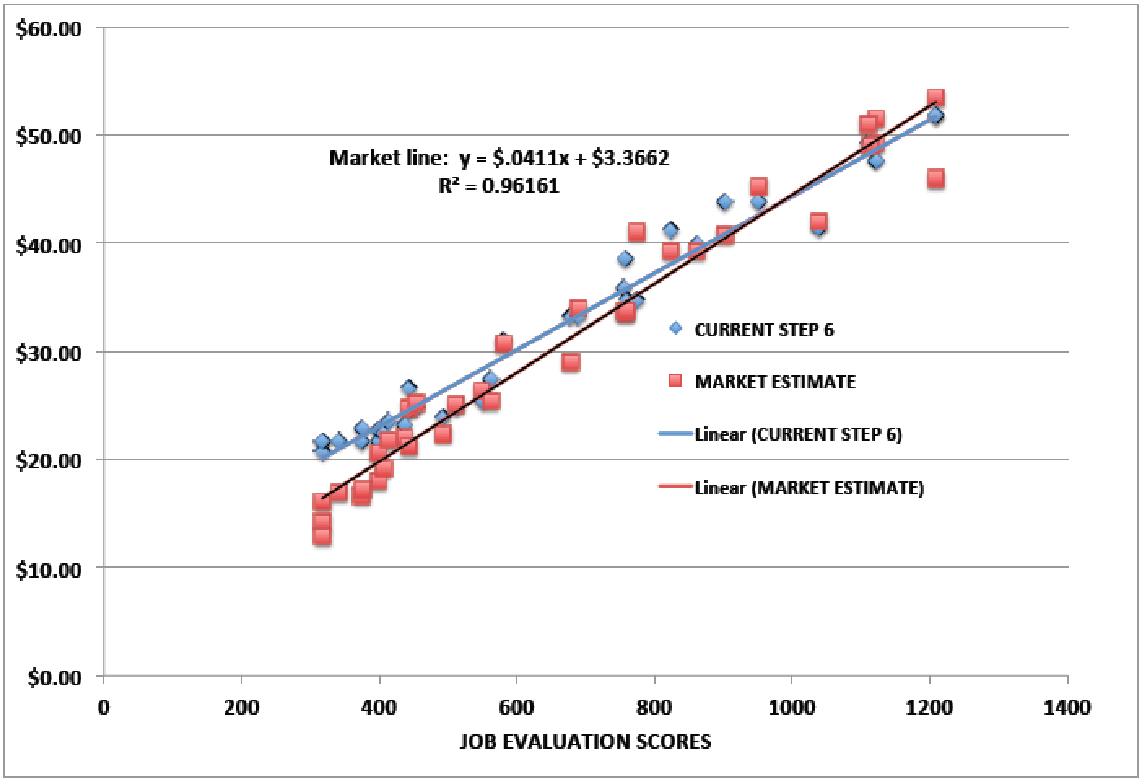
The market estimates for the management/professional benchmarks are public sector market averages from the survey sources listed above. In developing a market estimate for the non-exempt jobs we used a weighted survey method. Specifically, the highest skilled jobs were weighted 75/25 for public sector/area market data, the next tier down were weighted 50/50, and the lower level jobs were weighted entirely on area market data, which already is a mix of both public and private employers. We used this weighting method at the City administration's request to make certain the City was competitive in its target markets.

As can be seen from the table on the following page, the non-exempt benchmark jobs have an average compa-ratio of 122%. The compa-ratio is: Step 6 pay for the position divided by the market estimate. Clearly, the City is paying above market for this group of employees, on average.

The management/supervisory group of benchmark jobs is "spot on" the measured market with an average compa-ratio 102%.

BENCHMARK POSITION	JE SCORE	CURRENT STEP 6	MARKET ESTIMATE	NEXEMPT C/RATIO	EXEMPT C/RATIO
RECORDS CLERK	317	$20.68	$14.24	145%	
SECRETARY	317	$21.71	$16.13	135%	
CLERK/CASHIER	317	$21.71	$12.88	169%	
LABORER	342	$21.76	$16.99	128%	
TRUCK DRIVER	399	$21.76	$18.03	120%	
ACCOUNT CLERK (INTERMED)	374	$21.71	$16.63	131%	
EQUIP OPERATOR II	376	$22.91	$17.23	133%	
WATER PLANT OPERATOR	399	$22.76	$20.61	110%	
ACCOUNT CLERK (TOP)	407	$22.49	$19.17	123%	
EQUIP OPERATOR III	414	$23.53	$21.79	108%	
MECHANIC	437	$23.22	$22.04	105%	
ENGINEERING TECH/AIDE	443	$26.59	$24.76	107%	
LAB TECHNICIAN	443	$24.56	$21.25	116%	
ELECTRICIAN	454	$24.78	$25.23	98%	
ADMIN ASST	493	$23.91	$22.33	107%	
ACCOUNTANT	512	$24.89	$25.06		99%
LIBRARIAN*	0	$25.47	$26.39		97%
PAYROLL COORDINATOR	563	$27.46	$25.41		108%
SENIOR ACCOUNTANT	581	$31.01	$30.75		101%
PRINCIPAL PLANNER	679	$33.22	$29.00		115%
CHIEF INSPECTOR	690	$33.22	$34.00		98%
CITY CLERK	756	$35.89	$33.75		106%
CIVIL ENGINEER SUPV	758	$38.54	$33.50		115%
WASTEWATER OPS SUPT*	760	$34.77	$33.75		103%
PARKS & FORESTRY SUPT*	774	$34.77	$41.00		85%
DEPUTY COMPTROLLER/TREASURER	824	$41.21	$39.25		105%
IT SERVICES MANAGER	903	$43.87	$40.75		108%
OPERATIONS DIRECTOR DPW*	862	$39.92	$39.25		102%
CITY ENGINEER/DEP DPW	951	$43.87	$45.25		97%
FIRE CHIEF*	1122	$47.65	$49.25		97%
POLICE CHIEF*	1122	$47.65	$51.50		93%
LIBRARY DIRECTOR	1039	$41.43	$42.00		99%
DIRECTOR OF ADMINISTRATION	1111	$49.19	$51.00		96%
CITY ATTORNEY/HR DIRECTOR	1114	$49.19	$49.00		100%
DIR COMMUNITY DEVEL	1209	$51.84	$46.00		113%
DIR OF PUBLIC WORKS	1209	$51.84	$53.50		97%
AVERAGE COMPA-RATIO				122%	102%

Graphically, the results from the market study can be graphed as shown on the following page. Each data point on the graph represents a benchmark job. We have graphed the job evaluation score for each benchmark with Step 6 in the case of the current plan and with the market estimate in the second case. As expected there is some variance around each line.



The blue (top) line reflects the City's current pay practice, and the red line graphs the market relationship. As you can see, the two graphs show the relative congruence for the management/professional staff and the City's higher pay practice for the non-exempt staff.

The equation of the trend line for the market data is:

$$y = \$.0411x + \$3.3662$$

with a correlation coefficient of 0.96161, which can be interpreted as 96% of the variance in pay is explained by the job evaluation result. The implication of this is that we can use the market line equation confidently in creating pay plan options for the City to consider.

We need to address a couple of important policy considerations:

Is it fair to use Step 6 for this analysis for both groups since it is the maximum rate for the non-exempt jobs and only the mid-point of the management/supervisory pay range? Absolutely. In fact, it points out a major existing bias in favor of the non-exempt group in the current pay plan structure.

Employees in the former bargaining units moved through their pay ranges in five steps over a period of 30 months, receiving a 24% pay increase. Management and professional staff who are hired at the minimum of the pay range have to work for the City ten years before their pay is 24% higher than when they started.

Example:

- Engineering Tech I (former bargaining unit)
  - Pay range is $22.67 - $27.12 and reached in 30 months
- GIS Specialist (non-rep plan)
  - Pay range is $22.37 – $28.67; reach $27.16 in 10 years

Why didn't we use private sector data, too, for the management/professional positions? Essentially, there are four major reasons. First, not all of the management jobs have private sector counterparts (Public Works Director, Police Chief, Fire Chief); these are public sector management jobs responsible for public services, and that is a unique market.

Second, private sector employees at the management, and often at the professional level, are covered by performance-based pay plans, often with bonus eligibility for higher individual or organizational performance. Their lives tend to be governed by profit-and-loss considerations that are substantially different from public sector employment. Consequently, it is pushing the comparison if we use private sector data for most of these jobs. If the public sector embraces and perfects a pay-for-performance model, we will need to make these comparisons more frequently.

Third, our labor market for many of our supervisory jobs is internal; i.e., the City tends to promote from within. And a fourth reason is that the private sector pays its managers much more than the public sector, and, from a policy standpoint, the City is not going to support salaries at private sector levels. A Chief Financial Officer in a private sector organization the size of the City of Fond du Lac might be paid $150,000 with a $25,000 bonus. A CEO would be way up in six figures. No City in Wisconsin is going to reach toward those heights.

VI. New Pay Structures

At the City Council's Committee of the Whole workshop on March 14, we suggested several pay plan options for the City to consider. We've changed the order somewhat, moving the "no change" option to the last option in this report for reasons that will become apparent.

Options 1-3 below are developed based on the market data analyzed above. The first six steps of each pay plan are the same in each plan. The differences in the options are in the plan implementation beyond Step 6.

Options 1-3 also could involve “red-circling” many current non-exempt staff, although the City could mitigate the future impact by considering non-base accumulative one-time payments, if funds are available.

All four options would require the City to implement an accurate performance management system for reasons that we discuss later in the report.

Option 1 – Extend the current management/professional structure to all non-represented staff.

The current management/professional (non-rep) pay plan has seventeen pay ranges with each having sixteen steps from the range Minimum to the Maximum. Employees are eligible for annual raises of 2.5% of the Control Point (Step 6) until they reach the Control Point, then raises are 1.25% each year until the Maximum is reached after 15 years of service.

Under this option, the City would continue to use a seventeen grade structure for all covered staff, allocating positions to the pay grades based upon each job classification’s job evaluation score.

The Option 1 pay plan is appended to this report as Attachment A.

Option 2 – Return to the 2001 management/professional structure, extending it to the non-exempt staff, as well.

This option is the similar to Option 1 in that it progresses employees through the plan in steps and has the same range Minimums and Maximums. However, it would return the City to the non-rep plan structure adopted by the City Council over ten years ago that had eleven steps with employees.

Under that older plan, employees reached the range Maximum after ten years of service. This option would make the last three steps in two-year eligibility intervals, instead of one year. In other words, an employee hired at the Minimum would reach Step 8 after seven years of service, then reach the Maximum of the range 6 years later.

Again, this single plan removes all distinctions between employee groups and promotes organizational unity, and it supports uniform salary administration. Option 2 has fewer steps but stretches out the life of the pay plan in terms of progression time. It’s a better pay plan for the non-exempt staff than Option 1 because employees move to a higher pay level faster; however, it is much, much slower progression than the current practice of granting a 24% increase after thirty months of employment.

The Option 2 pay plan is appended to this report as Attachment B.

Option 3 – Adopt a pay-for-performance structure and system.

This would be a variable pay-for-performance structure similar to the one adopted by the City of Oshkosh. All employees would be eligible to mature to the Control Point (Step 6) in annual steps. The pay range maximums would be increased from 112.5% of the Control Point to 120% to give more room for performance-based pay. All future increases beyond the Control Point would be based upon a performance-rating matrix that are common in private sector and many not-for-profit organizations.

Fiscally, this is the most conservative option because it offers no scheduled pay increases beyond Step 6. Culturally, it is the most difficult Option to implement because it places an immediate burden on the City administration to develop and implement a performance management system that would support this option. No matter which option the City selects, a performance management system is an absolute must; a system that will support a variable pay-for-performance system is more complicated than a pass-fail type of system required for a step pay plan.

This City Council and future City Councils would have to support this type of plan with adequate funding and no political interference in plan administration – this is an absolute requirements for this type of system.

The Option 3 pay plan is appended to this report as Attachment C.

Option 4 – Make no changes

Under the "no change" option, the City would continue with its two current pay plans for management/professional staff with its 28% spread from Minimum to Maximum and 15 years of service on a job to reach the Maximum. The City would adopt the former collectively bargained pay plans, and staff would continue to be assigned to those thirty-six pay grades. New employees would progress through them over the first 30 months of service, receiving a 24% pay increase.

This is the easiest immediate choice. The City's employees, including managers, are used to the current pay plans. No change would be required, and change is always difficult.

However, the next City Council and the new City Manager will be looking at an enormous fiscal challenge. There would be no payroll savings, and we believe it ties the City's hands and virtually guarantees future reductions in services and lay-offs. It also perpetuates an employment culture of union vs. non-union, with pay plans that are biased toward the non-exempt structure.

Discussion

Moving to any of Options 1-3 would both save the City money on future hiring of non-exempt staff and cause red-circling. The amount of savings will depend on the rate of turnover. The Grade Order List that would apply to Options 1-3 is included as Attachment D.

The distribution impact by plan option is summarized in the table below:

PLAN	Min. to Step 6	Step 7 to Max	Red-Circled	Total
OPTION 1 or 2	22	66	90	178
OPTION 3	22	85	71	178

Clearly, any of these options result in serious red-circling, and all of it lands on the hourly based employees. We know this will make the decision to move forward with any option more difficult. The red-circling is somewhat less under Option 3 because the pay plan Maximum rate on that plan is 120% of Step 6, whereas it is 112.5% under Options 1 or 2.

We want to be very clearly that “red-circling” does not necessarily mean a hard “pay freeze.” Circumstances can change. For example, we could see a period of inflation and a dramatic increase in property values and tax proceeds so that the City is in a financial position to grant lump sum payments to offset the rising cost-of-living. It is important to be flexible. As economic conditions improve and labor markets tighten, the City will want to consider market adjustments to the two pay plans to maintain its competitive position.

The hard reality, however, is the current state of the City’s finances, as summarized by the administration, precludes any pay raises in the foreseeable future unless they are financed by service reductions and layoffs. The alternative is to reduce pay to balance the budget, but we see this as the last resort and are not recommending it to the City.

There will be salary savings near term from any of the three pay plan options. The table on the following page shows that 40% of the City workforce is estimated to be retirement eligible within the next 5-10 years, and over 50% of the workforce is over age 50. All three of the plan options will involve less payroll commitment as jobs turnover. In fact, we would not recommend adjusting payroll budgets in either 2012 or 2013 to move those incumbent employees to steps as they become eligible.

Will the City be able to recruit competent staff at the new, lower pay scales? We’ve discussed this at length with the City administration and conclude that the

City should be able to do so. If the City finds over time that it is paying too little to attract a competent workforce, then it can increase the schedules.

AGE	NO.	PCT.	CUMM PCT
60 or >	25	7%	7%
55-59	49	14%	21%
50-54	69	19%	40%
45-49	46	13%	53%
<45	167	47%	100%
TOTAL	356	100%	

Options 1-3 will enable the City to benefit from a new wage foundation that gives the City a chance to preserve city jobs and city services. It is our view that if the City doesn't do this, the City's financial decisions in 2013 will be even tougher ones to make. A strategy of adopting a new pay plan with a red-circling policy that does not reduce the base pay of any current employee, can mitigate the current and future impact on employees and the citizens of Fond du Lac.

Employees are faced with reduced disposable income from changes in the benefits programs and the elimination of the longevity pay program. We know the financial challenges the City is facing are significant, so it may not be possible to honor a red-circling policy beyond 2012. If the future choices are pay vs. jobs, the decisions will become much more difficult to make.

We want to point out that we intentionally have not addressed pay plan recommendations for the bargaining unit positions in protective service and transit occupations. The changes in collective bargaining legislation enacted this year continue to provide for bargaining wages, hour, and working conditions for protective service and transit employees, and the City and the unions have completed or are engaged in negotiations for successor agreements.

As provided in the scope of work for this project, protective service and transit employees completed JDQ's, and these are available to the leaders of those departments and the Human Resource staff to inform their work on staff development, future structural options, and performance management.

Regarding performance management, again, all three of the new pay plan options are "pay for performance" plans. Options 1 and 2 would require an evaluation that performance meets expectations to advance in the plan. Option 3 is the variable pay raise plan beyond Step 6.

The City of Fond du Lac, like every other public employer in this new era of post-Act 10 employee relations cannot afford to continue to live in a world of not evaluating employee performance regularly and accurately. We simply cannot conduct the public's business without managing employee performance systematically.

Implementing any performance management system is not inexpensive. The primary costs are in the internal resources that are necessary to develop performance measures, training managers in effective measurement and evaluation, and system auditing to create and maintain consistency while continuing to drive the program forward. Simply stated, it requires discipline and commitment.

The Job Description Questionnaire that employees completed as part of this project asked incumbents to identify ways the City can measure how well each is performing the job's essential duties. We will provide the City with a performance management review template that it can use to convert JDQ content into a review instrument. It is a good place to start building the foundation for an enhanced performance management system.

We discussed Option 3 at length with City administration because the burden would fall on them if pay for performance is to move forward. Because the current City Manager is retiring this year and the City is recruiting a new Manager, we think Option 3, a variable pay for performance system, is not realistic now.

Our prediction is that variable pay for performance systems for public sector managers will be a popular compensation topic in Wisconsin throughout the next generation. The type of step system pay plan that the City adopted years ago for its management group really was our only practical alternative that provided some way of keeping management and supervisory pay somewhat higher than the pay of employees they are supervising. Now, circumstances have changed.

What this new economy will require of all of us is better performance. To compete, we will need to get better at what we do. Every employee should have a right to an annual performance evaluation with feedback related to objective performance standards. It's just good management and as important a management task as any. It provides a path to improvement.

Where the City needs to improve is in building out its performance management system so that it operates across the organization in a consistent manner. This will be an evolution from a basic system to more complex variations as implementation takes hold. Probably the most difficult task will be training first and second line supervisors in effective performance evaluation and communication.

Either now or in the future, should the City decide to move to a variable pay for performance pay system, there are three necessary conditions that must be met if an organization is going to have a successful performance-based pay program.

1) The pay structure has to be internally equitable.

2) There must be sound performance measures with a system that provides feedback to staff and an accurate performance score.

3) The third requirement for a successful performance-based pay system is money – the system has to be funded adequately.

Although we do not think the City of Fond du Lac is ready to move now to a variable pay for performance system, the City should consider creating an "exceptional performance award" system to provide some special recognition to "star" individual performances. It could work this way:

- Each year, there is a nomination process. Anyone – employee colleagues, managers, citizens – can nominate an employee for special recognition.
- The City would establish a review process to consider all nominations and use that process to select the most meritorious achievers.
- A performance award fund would be created from salary savings created from employee turnover.
- One-time exceptional performance pay awards would be made from this fund to the most meritorious achievers.

This type of program addresses the primary criticism of a step pay plan – everyone receives the same pay treatment regardless of real performance differences.

<u>The City's Longevity Pay Plan</u>

Base pay does not tell the whole story under the City's current pay system – there also is a longevity pay system that is very slowly being phased out. If an employee is covered, then there is up to an additional 9% in pay annually. In 2011, the total paid in longevity payments was in excess of $199,000 and paid to 52 eligible employees, out of a total City employment of over 350 staff. City employees hired after 1987 are not eligible for the longevity system.

The administration proposed phasing the system out over three years beginning in 2012; however, the City Council deferred a decision for the results of this study. So, since it is before us for a recommendation, we suggest two choices:

1. Roll the current longevity pay into base pay and eliminate the program. Our belief is that most of the employees affected also are likely to be red-circled under any of the three pay plan options offered above. Thus, the red-circling will be even more painful.

2. Alternatively, we believe the current system is unfair on its face because employees doing the same work can't earn the same money. So, we would rather see the City cancel this program at the end of 2012 and roll the funds into an early retirement incentive program to be designed prior to submission of the 2013 budget. Under this approach, the City would make

special payments available to any employee who announces and follows-through on retirement from City service in 2013. Variations on this could be offered to sworn and transit employees through bargaining.

VII. Benefits and Total Compensation

The term "fringe" benefits usually is traced back to WWII and the war labor board policy of controlling compensation increases in the face of wartime scarcity and inflation. Policymakers concluded that benefits didn't amount to much so they were on the "fringe" of compensation and, therefore, not covered by pay regulation.

In the post WWII era of private sector collective bargaining, all of that changed dramatically, and elaborate fringe benefit programs emerged, largely because employer contributions to those programs were not taxed. When public employee collective bargaining gained traction in the 1960's and 70's, public employers emphasized benefit programs that reflected a long-serving career workforce and negotiated almost universal employer payment of those benefits.

Interest arbitration criteria cemented those benefit levels in place and supported increasing levels of pay largely isolated from the changing employment scene in the private sector where the heavy industry unionized jobs that set the benefit trend were lost to competition outside the United States.

City of Fond du Lac, like all Wisconsin public employers, provides a top quality benefit program for its employees, and this is one of the most valuable strategic advantages the City has in recruiting and retaining a quality workforce. Benefits programs are divided into four major cost/program categories as follows:

- Mandatory benefits of social security retirement and disability insurance coverage, Medicare coverage, unemployment insurance protection, and workers compensation coverage.
- Wisconsin Retirement System – an excellent, fully funded state retirement system under the defined benefit pension model.
- Medical insurance.
- Leave benefits – sick leave, vacation, holidays, and various forms of family and personal leave.

The City is implementing two major changes in its benefits program. The first involves the pension system. Acts 10 & 32 required all public employers in Wisconsin to deduct the employee share of the annual pension charge from the paychecks of each employee, except unionized protective service employees and transit workers. The latter continue to have these benefits bargained collectively.

Accordingly, the City began deducting pension contributions from management and professional employees in September, along with new police and fire hires, and did so for all general employees whose collective bargaining agreements expired in

January. The City also has proposed and/or bargained for WRS deductions to the protective service and transit unions for all of their employee members as well.

Compared to most private sector workers, a free pension in a fully funded, secure pension system with an adequate retirement income formula is an exceptional employee benefit. It is true that the employee portion of the contribution belongs to the employees, and is, in effect, a savings program; however, requiring employees to make that contribution also reduces disposable income. We understand the impact of this change on employee morale, particularly at a time when wages are generally frozen.

The second area of major change in the benefits program at the City of Fond du Lac was in the health insurance area. Act 10 mandated employees covered by the State health plans begin to contribute 12% of premium. The City manages a self-insured program through the assistance of a third party provider and employees can make plan choices that affect their out-of-pocket vs. premium contributions.

The least expensive City plan has a 92/8% premium contribution split between the City and an employee enrolled in a family plan. On an annual basis, the City's cost is $19,800 per employee enrolled in the general family plan; the employee pays $1,584. The value of this plan to an enrolled employee is almost $9 per hour.

We believe this approach is untenable in the future. At a 7% annual rate of increase, the City's cost for a family health plan at this premium sharing arrangement would soar to over $36,000 in ten years, or $18 per hour.

Where should the City go from here with the City's benefits programs? Although we don't know the full impact of changes in federal health care mandates, we have to assume that health insurance premiums will continue to rise, and, under the current formula for employer/employee cost-sharing, the City would carry most of the burden.

The Kaiser Family Foundation and Health Education and Research Trust conduct extensive research on employer health benefits. According to their most recent report (http://ehbs.kff.org/), the average employer contribution to family level coverage among larger employers is substantially less than the cost of the City's plan, as is the employee contribution. The table below shows the differences.

	Family Premium	Employee Share	Employee Percent
Kaiser Average	$15,550	$3,888	25%
City Plan	$19,800	$1,584	8%

If the City is going to protect services and jobs as its top priority, we believe it will have to move to a higher level of employee contribution to premium. Our recommendation is that the City consider adopting a policy objective of gradually moving to an 80/20 premium split between employer and employee premium contribution by having future premium increases divided 50/50 until the 80/20 split is in place.

In the area of employee leave benefits, we believe we will see more public employers gravitate to a paid time off (PTO) plan. Not only do these plans provide an opportunity for organizational savings, they also standardize leave benefits for ease of use and application for employees and supervisors. Such a plan would include disability insurance as the replacement for the current benefits of accumulated sick leave and then establish one form of leave that would replace sick leave and the other separate traditional forms of leave such as; vacation leave graduated by seniority, paid floating holidays, and other forms defined by personal leave policies.

We felt this was too great a change to consider for 2012 with all of the changes taking place in regard to pension and health insurance. Instead, we recommend the City review plan options in 2012 and consider possible implementation in 2013.

The City Human Resources Department provides individual annual reports that detail the City's direct contributions to employee pay and benefits. This is an excellent approach to effective communication on these very, very important compensation matters. An example below, illustrates the true value of City employment –

> The average hourly rate for the non-exempt employee pay plan group is almost \$22/hr. so total salary for a 2,080-hour employee is *\$45,760.*
>
> The City's cost of the family health premium is about *\$9/hr*.
> Employer FICA contributions are 7.65% of pay, or about *\$1.70/hr*.
> Employer contribution to pension is 5.8%, or about *\$1.30*.
> Therefore, total direct compensation costs are approximately *\$34/hr., or \$70,220 per year*.
>
> *[\$12/hr*. for cash benefits yields a cash benefit factor of *54%*.]
>
> A 40-hr/wk employee has a 2,080 work year.
> Let's say typical paid time off includes 12 holidays (96 hours), three weeks vacation (120 hours), and average sick leave usage is 6 days per year (36 hours).
> Subtracting 252 paid time off hours from 2,080 hours gives us *1,828 hours worked*.
>
> Dollar cost to the City, and benefit to employee, is \$70,220 divided by 1,828 hours worked for a <u>*productive labor rate of \$38.70/hr.*</u> for the average employee in the non-exempt employee group.

The paid time off estimate we used above is probably understating actual experience. We recommend the City expand its total compensation benefits statement to include actual paid time off in the calculation of a productive labor rate, at least for hourly staff. We also should point out that red-circling a non-exempt employee who is being compensated at over $38.00 per hour actually worked does not seem to be a radically unjust concept.

X. Conclusion

We understand the significance of the options and changes recommended in this report. Challenging times require bold action and determined leadership. The circumstances are right for the City of Fond du Lac to move forward with changes to its compensation program. Whether we like it or not, we are in the midst of profound economic and cultural change. We can view this as a crisis or an opportunity. We urge the City to view it as an opportunity.

Our mission is to enhance and preserve public service. To do so, we strive to help our clients protect their core services and, when necessary, make the adjustments necessary to accomplish that objective. We believe implementing the recommendations in this report will move the City in the right direction.

We are committed to helping the City of make its compensation program successful. Thank you for the opportunity to work with the City on this important project.